



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

May 8, 2014

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an audit report on the Xenia Rural Water District.

The District had total revenues of \$12,811,621 for the year ended December 31, 2013, a 4.9% increase over the prior year. Revenues included water sales of \$11,971,780 and water connection fees of \$467,626. The increase in revenues was primarily due to increased residential water sales of \$457,630 and an increase of \$83,862 in water connection fees.

Expenses totaled \$12,169,920 for the year ended December 31, 2013, a 14.8% decrease from the prior year. Expenses included \$4,539,712 of interest, \$2,692,871 of depreciation/amortization and \$1,159,255 of salaries and wages. The decrease in expenses is due primarily to decreased operating and interest expenses.

A copy of the audit report is available for review at the Xenia Rural Water District, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1333-0037-B000.pdf>.

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XENIA RURAL WATER DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

DECEMBER 31, 2013 and DECEMBER 31, 2012

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Xenia Rural Water District

Officials

(Before April 2013)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Walt Tomenga	Chair	(Resigned)
Dan Lovett	Chair (Effective Oct 2012)	Apr 2013
Dan Lovett	Vice Chair (Through Sept 2012)	(Resigned)
Vacant	Vice Chair (Effective Oct 2012)	Apr 2013
Tom Ballard	Treasurer	Apr 2015
Frank Hayer	Secretary	Apr 2013
Troy Wilson	Director	Apr 2013
Dave Bert	Director	(Resigned)
Jean Bromert (Appointed)	Director	Apr 2014
Steve Mestad	Director	(Resigned)
Tamera Mason	General Manager	(Resigned)
Dr. L.D. McMullen (Appointed)	Interim General Manager	Indefinite
Gary Andrews	Controller	Indefinite

(After April 2013)

Dan Lovett	Chair	Apr 2014
Troy Wilson	Vice Chair	Apr 2016
Tom Ballard	Treasurer	Apr 2015
Jean Bromert	Secretary	Apr 2014
Harold Jensen	Director	Apr 2016
Gary Becker	Director	Apr. 2016
Dr. L.D. McMullen	Interim General Manager	(Through Dec. 2013)
Gary Benjamin (Appointed)	General Manager (Effective Jan 2014)	Indefinite
Gary Andrews	Controller	Indefinite

Xenia Rural Water District



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Independent Auditor's Report

To the Members of the
Xenia Rural Water District:

Report on the Financial Statements

We have audited the accompanying financial statements of the Xenia Rural Water District as of and for the years ended December 31, 2013 and 2012, and the related Notes to Financial Statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Xenia Rural Water District at December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Emphasis of a Matter

The accompanying financial statements have been prepared assuming the District will continue as a going concern. The District entered into a forbearance agreement with Assured Guaranty Corporation to provide structure for repaying outstanding debt obligations to Assured Guaranty Corporation and others. While the forbearance agreement provides for current reductions in scheduled debt repayments, escalated debt repayments are required in future years. In the event of default under the forbearance agreement, unless waived by Assured Guaranty Corporation, all amounts owed to Assured Guaranty Corporation become due and payable in full.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 11 and 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 10, 2014 on our consideration of the Xenia Rural Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.



MARY MOSIMAN, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 10, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of the District, we offer readers of these financial statements an overview and analysis of the financial activities of the District. This narrative is designed to assist readers in focusing on significant financial issues, identifying changes in the District's financial position and identifying individual issues or concerns.

Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts. It should be read in conjunction with the financial statements which begin on page 14. As explained in Note 11, the District implemented Governmental Accounting Standards Board Statement No. 65, resulting in a restatement of net position and results of operations for fiscal year 2012.

FINANCIAL HIGHLIGHTS

- ◆ The District's net position increased 210.8%, or \$641,701, in 2013 and decreased 87%, or \$2,039,064, in 2012 as a result of operations and other gains or losses in the respective years.
- ◆ Operating revenue increased 5.5%, or \$669,646, in 2013. The increase in operating revenues resulted from a rate increase. Operating revenue in 2012 increased \$807,862, or 7.2%, over 2011.
- ◆ Operating expenses decreased 11.5%, or \$943,345, in 2013 because of factors such as lower salaries and wages, lower repair and maintenance expense, lower professional fees expense and lower depreciation expense. Operating expenses in 2012 decreased \$639,795, or 7.2%, from 2011 because of lower salaries and wages, lower wastewater operation expense and lower fuel, maintenance, insurance and depreciation expenses.

USING THIS ANNUAL REPORT

The financial statements included in this financial report provide information about the activities and performance of the District using accounting methods similar to those used by private sector businesses. These financial statements combine the District's current financial resources with capital assets and long-term obligations.

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Statement of Net Position presents information on the District's assets and liabilities, with the difference between the two reported as net position. Over time, changes in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the District's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years.

The Statement of Cash Flows provides information about the District's sources and uses of cash receipts and cash payments. The sources and uses of cash are organized by operating activities, capital and related financing activities and investing activities.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the District's financial statements. The Notes to Financial Statements are a required part of the basic financial statements.

Required Supplementary Information further explains and supports the financial statements by presenting the Schedule of Funding Progress for the Retiree Health Plan.

FINANCIAL ANALYSIS

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. The District's net position at the end of 2013 totaled \$946,047. This compares to \$304,346 at the end of 2012 and \$2,343,410 at the end of 2011. A summary of the District's net position is presented below.

	Net Position		
	December 31,		
	2013	2012 (as restated)	2011
Current assets	\$ 9,652,688	7,048,170	7,671,317
Capital assets, net of accumulated depreciation/amortization	120,628,004	123,816,737	126,728,850
Other noncurrent assets	316,077	597,227	688,366
Total assets	130,596,769	131,462,134	135,088,533
Current liabilities	4,754,004	3,973,529	10,159,659
Noncurrent liabilities	124,896,718	127,184,259	122,585,464
Total liabilities	129,650,722	131,157,788	132,745,123
Net position:			
Restricted	5,129	3,819	2,509
Unrestricted	940,918	300,527	2,340,901
Total net position	\$ 946,047	304,346	2,343,410

Net position increased \$641,701 during the year ended December 31, 2013 and decreased \$2,039,064 during the year ended December 31, 2012. The increase in net position is primarily the result of increased operating revenues due to rate increases and decreased operating and nonoperating expenses, specifically lower expenses for salaries and wages, repair and maintenance, professional fees and depreciation/amortization. The decrease in net position in 2012 was due primarily to \$5,730,435 of interest expense and a loss of \$308,960 due to the write down of surplus land to fair market value.

Total liabilities of the District were \$129,650,722 and \$131,157,788 at December 31, 2013 and 2012, respectively. Noncurrent liabilities included in total liabilities were \$124,896,718 and \$127,184,259 at December 31, 2013 and 2012, respectively. Total liabilities decreased \$1,507,066 in 2013 and decreased \$1,587,335 in 2012. The decrease in liabilities at December 31, 2013 was primarily the result of principal payments made on the water revenue bonds, Series 2006 and water and wastewater notes payable. The decrease in liabilities at December 31, 2012 was primarily the result of a principal payment made on the water revenue bonds, Series 2006 and a decrease in interest payable.

A significant portion of the District's total assets, 92% and 94%, were invested in capital assets at December 31, 2013 and 2012, respectively.

Statement of Revenues, Expenses and Changes in Net Position

The following Condensed Statement of Revenues, Expenses and Changes in Net Position summarizes the District's operating results for the years ended December 31:

	Revenues, Expenses and Changes in Net Position		
	Year Ended December 31,		
	2013	2012 (as restated)	2011
Operating revenues	\$ 12,761,904	12,092,258	11,284,396
Operating expenses	(7,273,606)	(8,216,951)	(8,856,746)
Operating income	5,488,298	3,875,307	2,427,650
Nonoperating revenue	49,717	125,024	7,958,094
Nonoperating expenses	(4,896,314)	(6,039,395)	(6,448,951)
Change in net position	\$ 641,701	(2,039,064)	3,936,793

The Statement of Revenues, Expenses and Changes in Net Position reflects an increase in net position in 2013, a decrease in 2012 and an increase in 2011.

Year ended December 31, 2013:

The change in net position in 2013 was a result of the following: 1) Total operating revenue increased 5.5% over the prior year because of a water rate increase. The District's water revenue of \$11,971,780 increased 5.1% over 2012. In January 2013, a water rate increase went into effect for all users. 2) Operating expenses decreased 11.5% from 2012. Decreases in operating expenses were from lower salaries and wages, lower repair and maintenance expense, lower professional fees expense and lower depreciation/amortization expense. 3) Non-operating revenues decreased 60.2% from 2012. The decrease was a result of 2012 gains from the sale of capital assets which did not occur in 2013 and a decrease in land rental and miscellaneous revenues. 4) Non-operating expenses decreased 18.9% from 2012. Interest expense decreased \$1,190,723, or 20.8%.

Year ended December 31, 2012:

The change in net position in 2012 was a result of the following: 1) Total operating revenue increased 7.2% over 2011 because of a water rate increase. The District's water revenue of \$11,391,993 increased 8.7% over 2011. In January 2012, a water rate increase went into effect for all users. 2) Operating expenses decreased 7.2% from 2011. Decreases in operating expenses were from lower salaries and wages, lower wastewater operation expense and lower fuel, insurance and depreciation/amortization expense. 3) Non-operating revenues decreased 98.4% from 2011. The decrease was a result of 2011 gains from the sale of capital assets and the forgiveness of debt, which did not occur in 2012. 4) Non-operating expenses decreased 6.4% from 2011. Interest expense decreased slightly to \$5,730,435.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes cash received from customers for water sales and sewer use reduced by employee payroll and payments to suppliers. Cash used by capital and related financing activities includes principal and interest paid on bonds and notes and the purchase of capital assets. Cash provided by investing activities includes sales of money market securities and interest income.

The following summarize the District's cash flows:

	Year ended December 31,		
	2013	2012	2011
Cash flows provided (used) by:			
Operating activities	\$ 8,054,467	7,173,892	6,372,710
Capital and related financing activities	(5,517,930)	(7,880,659)	(2,663,709)
Investing activities	(1,428,144)	19,219	26,642
Net increase in cash and cash equivalents	1,108,393	(687,548)	3,735,643
Cash and cash equivalents beginning of year	5,485,502	6,173,050	2,437,407
Cash and cash equivalents end of year	6,593,895	5,485,502	6,173,050
Investments	1,419,102	-	-
Cash, and cash equivalents end of year	\$ 8,012,997	5,485,502	6,173,050

CAPITAL ASSETS

The following summarizes capital assets:

	December 31,		
	2013	2012	2011
Nondepreciable/amortizable assets	\$ 1,044,094	1,886,697	2,124,389
Depreciable/amortizable assets	144,283,886	144,034,164	144,794,350
Intangible assets	4,885,629	4,885,629	4,975,332
Accumulated depreciation/amortization	(29,585,605)	(26,989,753)	(25,165,221)
Total capital assets, net of accumulated depreciation/amortization	\$ 120,628,004	123,816,737	126,728,850

Capital assets, net of accumulated depreciation/amortization, (including water lines, equipment and buildings) of the District were \$120,628,004 and \$123,816,737 at December 31, 2013 and 2012, respectively. This is a net decrease of \$3,188,733 during the year ended December 31, 2013. Total capital assets decreased because of the disposal of equipment, tools, office furniture and land.

Construction in progress included in nondepreciable/amortizable capital assets was \$159,941 and \$79,699 at December 31, 2013 and 2012, respectively. Further details on capital assets are presented in Note 4 of the Notes to Financial Statements.

LONG TERM DEBT

The following summarizes outstanding long-term debt:

	December 31,		
	2013	2012	2011
Revenue notes	\$ 45,708,810	45,749,245	45,632,446
Revenue bonds	77,459,361	78,822,960	80,136,560
Assured Guaranty Corporation	2,519,867	2,519,867	2,440,580
Project anticipation notes	1,443,168	1,468,168	1,468,168
Asset purchase agreement	-	76,426	76,426
Rural community 2000 loan	20,000	20,000	20,000
Total	\$ 127,151,206	128,656,666	129,774,180

In 2013, the District repaid \$37,395 of principal on USDA Rural Development water revenue notes, \$3,040 of principal on USDA Rural Development wastewater revenue notes, \$1,385,000 of principal on water revenue bonds, series 2006 and \$25,000 on project anticipation notes. The District also repaid \$76,426 of an asset purchase agreement, thereby retiring the debt. For further details on long-term debt, see Note 7 of the Notes to Financial Statements.

In 2012, the District repaid \$230,514 of principal on USDA Rural Development water revenue notes, \$2,922 of principal on USDA Rural Development wastewater revenue notes and \$1,335,000 of principal on water revenue bonds, series 2006.

Debt service coverage has been calculated based on the definitions of gross revenues, operating expenses and special charges as defined in the water revenue bonds, series 2006 resolution. Debt service coverage on the scheduled water parity debt payments of the District was 130% at December 31, 2013 and 51% at December 31, 2012. Debt service coverage for 2013 increased significantly over the prior year due to the District's refinancing of all outstanding USDA Rural Development water revenue notes, which allowed for interest only payments in 2013. Covenants of the water revenue bonds, series 2006 state net revenues during each year will be sufficient to pay debt service and deposits into the required funds, but not less than 100% of the debt service payments on the bonds and parity obligations.

The water revenue bonds, series 2006 cash balance requirement for the restricted reserve is \$5,225,300. At December 31, 2013 and 2012, the balance of the restricted cash water revenue bonds, series 2006 reserve was \$0 and \$0, respectively. On March 28, 2013, the District's Board of Directors and Assured Guaranty Corporation completed a forbearance agreement and, as part of the forbearance agreement, the District is allowed to replenish the reserve account over a ten-year period beginning in January 2014 with the reserve account to reflect a fully replenished balance of \$5,225,300 by the end of 2023. Further details on reserves and debt service is presented in Note 7 of the Notes to Financial Statements.

The USDA Rural Development bond resolution requires amounts to be deposited monthly into a reserve account until a balance of one-tenth of one full year's principal and interest payment is on reserve. At December 31, 2013 and 2012, the balance of the restricted cash, USDA water notes reserve was \$0 and \$0, respectively. On March 29, 2013, USDA approved refinancing all outstanding USDA Rural Development water revenue notes. As part of the refinancing, USDA has allowed the District to replenish the reserve account over a ten-year period beginning in January 2014, with the reserve account to reflect a fully replenished balance of \$1,649,640 by the end of 2023. Further details on reserves and debt service is presented in Note 7 of the Notes to Financial Statements.

In July 2011, CIFG Assurance North America, Inc. (CIFG NA), the bond insurer, and Assured Guaranty Corporation, the reinsurance company, reached a settlement where the water revenue bonds, series 2006 guarantee has been assumed by Assured Guaranty Corporation under the Quota Share Reinsurance Agreement dated January 21, 2009. Because of this guarantee, the long term and underlying ratings on the District's water revenue bonds, series 2006 were raised from 'D' to 'AA-'. The District's prior rating of 'D' was the result of the District not paying obligations in accordance with terms of the agreement.

ECONOMIC OUTLOOK

On March 28, 2013, the District's Board of Directors and Assured Guaranty Corporation completed a forbearance agreement and USDA approved refinancing all outstanding USDA Rural Development water revenue notes on March 29, 2013. The forbearance agreement and USDA refinancing were designed to address the District's financial obligations to parity lenders and structure a plan for meeting those obligations.

The forbearance agreement and USDA refinancing have reduced the interest rates on existing debt obligations and have allowed the District to structure the repayment of financial obligations in a manner which allows a more realistic time horizon for repaying debt obligations and replenishing reserve requirements.

Since completion of the forbearance agreement and USDA refinancing, the District has made full debt payments and net cash flows for calendar year 2013 exceeded the amounts projected in the approved plan. Future cash flow needs are continuously being assessed and measures are being taken to ensure the District stays in compliance with all requirements of the forbearance agreement and USDA refinancing.

OTHER INFORMATION

In addition to the basic financial statements and accompanying Notes to Financial Statements, this report presents other information, including the Schedule of Funding Progress for the Retiree Health Plan and the Schedule of Findings. This information can be found on page 36 and pages 39 through 45.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This report is designed to present our customers and creditors with a general overview of the District's finances and operating activities. If you have any questions or require additional information, please contact the Controller of the Xenia Rural Water District at (515) 676-2117 or 23998 141st Street, Bouton, Iowa 50039.

Xenia Rural Water District

Basic Financial Statements

Xenia Rural Water District
Statement of Net Position
December 31, 2013 and 2012

	December 31,	
	2013	2012 (as restated)
Assets		
Current assets:		
Cash, cash equivalents and pooled investments	\$ 8,012,997	5,485,502
Accounts receivable:		
Trade	1,572,015	1,428,401
Other	-	74,740
Prepaid expenses	67,676	59,527
Total current assets	<u>9,652,688</u>	<u>7,048,170</u>
Noncurrent assets:		
Inventory	254,611	535,767
Capital assets, net of accumulated depreciation/amortization	120,628,004	123,816,737
USDA Rural Development restricted cash reserve	61,466	61,460
Total noncurrent assets	<u>120,944,081</u>	<u>124,413,964</u>
Total assets	<u><u>\$ 130,596,769</u></u>	<u><u>131,462,134</u></u>

Xenia Rural Water District

Statement of Net Position

December 31, 2013 and 2012

	December 31,	
	2013	2012 (as restated)
Liabilities		
Current liabilities:		
Accounts payable:		
Trade	\$ 238,966	267,751
Assured Guaranty Corporation	1,675,483	1,675,483
Accrued payroll taxes, IPERS contribution and sales tax	49,748	41,477
Accrued payroll	30,051	29,893
Accrued compensated absences	50,248	49,941
Customer deposits	72,541	74,462
Sewer payables	27,203	22,350
Advances from others	7,500	15,594
Accrued interest payable:		
USDA Rural Development water revenue notes	35,656	635
Water revenue bonds, series 2006	300,120	300,793
Other bonds and notes	-	10,743
Current portion of long-term debt	2,266,488	1,484,407
Total current liabilities	4,754,004	3,973,529
Noncurrent liabilities:		
Revenue notes payable	44,902,322	45,746,264
Revenue bonds payable	76,019,361	77,437,960
Assured Guaranty Corporation payable	2,519,867	2,519,867
Project anticipation notes payable	1,443,168	1,468,168
Net OPEB liability	12,000	12,000
Total noncurrent liabilities	124,896,718	127,184,259
Total liabilities	129,650,722	131,157,788
Net position		
Restricted for sewer bond debt service	5,129	3,819
Unrestricted	940,918	300,527
Total net position	946,047	304,346
Total liabilities and net position	\$ 130,596,769	131,462,134

See notes to financial statements.

Xenia Rural Water District

Statement of Revenues, Expenses and
Changes in Net Position

Years ended December 31, 2013 and 2012

	December 31,	
	2013	2012 (as restated)
Operating revenues:		
Water sales:		
Residential	\$ 8,484,661	8,027,031
Commercial	692,595	678,685
Industrial	2,475,278	2,430,250
Wholesale	319,246	256,027
Service charges	208,805	198,501
Contracted billing:		
Water	20,890	20,425
Wastewater	13,910	19,601
Water connection fees	467,626	383,764
Wastewater	77,212	76,249
Miscellaneous	1,681	1,725
Total operating revenues	12,761,904	12,092,258
Operating expenses:		
Provision for depreciation/amortization:		
Wastewater systems	24,437	24,436
Other	2,668,434	2,775,818
Salaries and wages	1,159,255	1,294,032
Purchased water	1,197,018	1,222,601
Professional fees	317,690	894,163
Utilities	334,082	312,638
Chemicals	237,812	243,927
Payroll taxes	96,681	107,641
General insurance	122,793	139,294
Employee benefits	267,847	263,092
Repair and maintenance	412,493	484,973
Wastewater operations	30,474	39,046
Fuel	128,956	134,895
Office expense	133,133	135,286
Postage and freight	7,668	6,192
Telephone	34,728	35,192
Vehicle repair and maintenance	42,408	35,328
Testing and lab	30,827	29,199
Licenses, dues and subscriptions	4,258	5,049
Miscellaneous	959	3,606
Bank fees and service charges	11,512	13,287

Xenia Rural Water District-

Statement of Revenues, Expenses and
Changes in Net Position

Years ended December 31, 2013 and 2012

	December 31,	
	2013	2012 (as restated)
Operating expenses (continued):		
Continuing education	2,915	5,082
Mileage	1,686	4,104
Advertising and promotion	2,713	4,052
Directors' per diem	2,734	2,145
Meals and lodging	93	1,873
Total operating expenses	<u>7,273,606</u>	<u>8,216,951</u>
Operating income	<u>5,488,298</u>	<u>3,875,307</u>
Non-operating revenues (expenses):		
Grant revenue	-	6,885
Custom water connection and relocation fees	31,188	-
Investment loss	(9,036)	178
Interest expense	(4,539,712)	(5,730,435)
Rental income	7,678	19,048
Gain (loss) on sale of capital assets	(165,799)	41,379
Miscellaneous	10,851	53,087
Loss on land sale	-	(308,960)
Gain (loss) on disposal of inventory	(181,767)	4,447
Net non-operating revenues (expenses)	<u>(4,846,597)</u>	<u>(5,914,371)</u>
Change in net position	641,701	(2,039,064)
Net position beginning of year, as restated	304,346	2,343,410
Net position end of year	<u>\$ 946,047</u>	<u>304,346</u>

See notes to financial statements.

Xenia Rural Water District

Statement of Cash Flows

Years ended December 31, 2013 and 2012

	December 31,	
	2013	2012 (as restated)
Cash flows from operating activities:		
Cash received from customers	\$ 12,665,931	12,011,666
Cash payments to employees for services	(1,517,781)	(1,697,669)
Cash payments to suppliers for goods and services	(3,093,683)	(3,140,105)
Net cash provided by operating activities	8,054,467	7,173,892
Cash flows from capital and related financing activities:		
FEMA public assistance grant received	24,468	26,349
Cash received from custom connection fees	31,188	-
Miscellaneous revenues received	18,529	53,087
Proceeds from sale of assets	859,746	116,806
Proceeds from sale of excess inventory	33,594	24,704
Acquisition and construction of capital assets	(463,888)	(201,638)
Principal paid on bonds and notes	(1,505,460)	(1,117,514)
Interest paid on bonds and notes	(4,516,107)	(6,782,453)
Net cash used by capital and related financing activities	(5,517,930)	(7,880,659)
Cash flows from investing activities:		
Purchase of investments	(1,422,135)	(7)
Investment income (loss)	(6,009)	19,226
Net cash provided (used) by investing activities	(1,428,144)	19,219
Net increase (decrease) in cash and cash equivalents	1,108,393	(687,548)
Cash and cash equivalents beginning of year	5,485,502	6,173,050
Cash and cash equivalents end of year	6,593,895	5,485,502
Investments	1,419,102	-
Cash, cash equivalents and pooled investments end of year	\$ 8,012,997	5,485,502

Xenia Rural Water District

Statement of Cash Flows

Years ended December 31, 2013 and 2012

	December 31,	
	2013	2012 (as restated)
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 5,488,298	3,875,307
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation/amortization - wastewater systems	24,437	24,436
Depreciation/amortization - other	2,668,434	2,775,818
Changes in assets and liabilities:		
Increase in accounts receivable	(93,342)	(104,980)
Decrease (increase) in prepaid expenses	(8,149)	21,115
(Decrease) increase in accounts payable	(28,785)	588,567
Increase in accrued salaries and wages	465	7,640
Increase (decrease) in accrued payroll taxes, IPERS and sales tax	8,271	(41,260)
Increase in other postemployment benefits	-	4,000
(Decrease) increase in advances from others	(8,094)	15,594
(Decrease) increase in customer deposits	(1,921)	5,738
Increase in sewer payable	4,853	2,317
Decrease in membership refund liability	-	(400)
Total adjustments	2,566,169	3,298,585
Net cash provided by operating activities	\$ 8,054,467	7,173,892
Non-cash capital and related financing activities:		
Loss on land sale	\$ -	(308,960)
Interest rolled into principal balances	-	429,522
Total	\$ -	120,562

See notes to financial statements.

Xenia Rural Water District
Notes to Financial Statements
December 31, 2013 and 2012

(1) Summary of Significant Accounting Policies

The Xenia Rural Water District was formed in 1992 pursuant to the provisions of Chapter 357A.2 of the Code of Iowa. The purpose of the District is to establish, develop, construct, operate and maintain water distribution and wastewater treatment systems for resident members throughout its territory in rural central and north-central Iowa. The District extends credit to customers served, all of whom are located in the State of Iowa.

The governing body of the District is composed of up to nine members, all of whom shall be participating members of the District. The Directors are elected by the participating members who each have one vote at the annual meeting. The Directors are elected to staggered terms so no more than three Directors are elected in any year. Directors hold office for a term of three years and until a successor is elected and has qualified.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the Xenia Rural Water District has included all funds, organizations, agencies, boards, districts and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The District has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of the District are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is the costs (expenses, including depreciation/amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District distinguishes operating revenues from non-operating revenues. Operating revenues generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. All revenues not meeting this definition are reported as non-operating revenues.

D. Assets, Liabilities and Net Position

The following accounting policies are followed in preparing the Statement of Net Position:

Cash, Cash Equivalents and Pooled Investments – The District considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized costs and certificates of deposit which are stated at cost.

Restricted Cash – Funds set aside for payment of debt issuances are classified as restricted.

Capital Assets – Capital assets are accounted for at historical cost. The cost of repair and maintenance is charged to expense while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation/amortization of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the District as assets with initial, individual costs in excess of \$1,000 and estimated useful lives in excess of two years.

Capital assets of the District are depreciated/amortized using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Water system and wells	60
Wastewater systems	15-60
Intangibles, purchased capacity	40
Intangibles, software	3-5
Plant building	40
Office building and improvements	7-39
Equipment and tools	3-12
Transportation equipment	3-7
Office furniture and equipment	3-7

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The District's liability for accumulated vacation has been computed based on rates of pay in effect at December 31, 2013 and 2012.

Inventory – Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consist of parts for the assembly and repair of new and existing water systems. When inventory is used for capital projects, it is included as a cost of the related project. Excess inventory held for sale is stated at estimated realizable value.

Accounts Receivable – The District recognizes bad debt expense on the direct write-off method.

E. Bond Discounts

Bond discounts incurred on the water revenue bonds, series 2006 for the purpose of refunding outstanding obligations are amortized on the straight-line method over the life of the bonds. Bond discounts incurred for the purpose of funding capital projects are treated as a cost of the project and capitalized as a capital asset when the project was started, based on the project budget.

Amortization charged to interest expense for 2013 and 2012 was \$21,401 and \$21,401, respectively.

F. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentations.

(2) Cash, Cash Equivalents and Pooled Investments

The District's deposits in banks at December 31, 2013 and 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the District; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Investments are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

At December 31, 2013, the District had the following investments:

Investment	Fair Value	Maturity
Federal Home Loan Bank (FHLB)	\$ 150,448	11/14/2014
Federal Home Loan Mortgage Corporation (FHLMC)	452,380	11/25/2014
Federal Home Loan Mortgage Corporation (FHLMC)	281,024	11/17/2015
Federal National Mortgage Association (FNMA)	<u>535,250</u>	10/15/2015
Total	<u>\$1,419,102</u>	

In addition, the District had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$486,878 pursuant to rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk – The District's investment policy limits the maturities of investments based on the funds established by debt resolutions. Funds not identified by a specific fund may be invested in instruments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the District.

Credit risk – The District's FHLB, FHLMC and FNMA investments at December 31, 2013 are rated AAA by Moody's Investors Service. The investment in the Iowa Public Agency Investment Trust is unrated.

Concentration of credit risk – The District places no limit on the amount which may be invested in any one issuer. More than 5% of the District's investments are in the Federal Home Loan Bank (7.9%), Federal Home Loan Mortgage Corporation (38.5%) and the Federal National Mortgage Association (28.1%).

(3) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees' Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members were required to contribute 5.78% of their annual covered salary until July 1, 2013, at which time the contribution rate changed to 5.95% of their annual covered salary. The District was required to contribute 8.67% of annual covered payroll until July 1, 2013, at which time the contribution rate changed to 8.93% of annual covered payroll. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended December 31, 2013, 2012 and 2011 were \$106,205, \$109,584 and \$109,246, respectively, equal to the required contributions for each year.

(4) Capital Assets

Capital assets activity for the years ended December 31, 2013 and 2012 was as follows:

	Year ended December 31, 2013			Balance End of Year
	Balance Beginning of Year	Increases	Decreases	
Capital assets not being depreciated/amortized:				
Land	\$ 1,806,998	-	(922,845)	884,153
Construction in progress	79,699	431,227	(350,985)	159,941
Total capital assets not being depreciated/amortized	1,886,697	431,227	(1,273,830)	1,044,094
Capital assets being depreciated/amortized:				
Office building and improvements	3,321,916	14,713	-	3,336,629
Office furniture and equipment	266,423	49,306	(18,985)	296,744
Plant building	618,339	-	-	618,339
Wells	167,164	-	(104,182)	62,982
Wastewater systems	1,434,944	-	-	1,434,944
Water lines	135,680,767	312,413	-	135,993,180
Intangibles, purchased capacity	4,728,209	-	-	4,728,209
Intangibles, software	157,420	-	-	157,420
Telemetry system	559,558	43,148	-	602,706
Equipment and tools	1,985,053	29,861	(76,552)	1,938,362
Total capital assets being depreciated/amortized	148,919,793	449,441	(199,719)	149,169,515
Less accumulated depreciation/amortization for:				
Office building and improvements	921,346	124,025	-	1,045,371
Office furniture and equipment	247,248	13,108	(18,985)	241,371
Plant building	460,675	14,729	-	475,404
Wells	49,847	2,877	(3,907)	48,817
Wastewater systems	106,864	24,437	-	131,301
Water lines	21,384,579	2,269,951	-	23,654,530
Intangibles, purchased capacity	1,792,380	120,959	-	1,913,339
Intangibles, software	144,723	4,610	-	149,333
Telemetry system	226,361	29,600	-	255,961
Equipment and tools	1,655,730	88,626	(74,178)	1,670,178
Total accumulated depreciation/amortization	26,989,753	2,692,922	(97,070)	29,585,605
Total capital assets being depreciated/amortized, net	121,930,040	(2,243,481)	(102,649)	119,583,910
Capital assets, net	\$ 123,816,737	(1,812,254)	(1,376,479)	120,628,004

	Year ended December 31, 2012			
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated/amortized:				
Land	\$ 2,115,958	-	(308,960)	1,806,998
Construction in progress	8,431	233,292	(162,024)	79,699
Total capital assets not being depreciated/amortized	2,124,389	233,292	(470,984)	1,886,697
Capital assets being depreciated/amortized:				
Office building and improvements	3,321,916	-	-	3,321,916
Office furniture and equipment	565,292	6,412	(305,281)	266,423
Plant building	618,339	-	-	618,339
Wells	167,164	-	-	167,164
Wastewater systems	1,434,944	-	-	1,434,944
Water lines	135,626,874	161,972	(108,079)	135,680,767
Intangibles, purchased capacity	4,728,209	-	-	4,728,209
Intangibles, software	247,123	8,250	(97,953)	157,420
Telemetry system	559,558	-	-	559,558
Equipment and tools	2,500,263	24,626	(539,836)	1,985,053
Total capital assets being depreciated/amortized	149,769,682	201,260	(1,051,149)	148,919,793
Less accumulated depreciation/amortization for:				
Office building and improvements	797,279	124,067	-	921,346
Office furniture and equipment	538,186	14,343	(305,281)	247,248
Plant building	445,947	14,728	-	460,675
Wells	45,668	4,179	-	49,847
Wastewater systems	82,428	24,436	-	106,864
Water lines	19,154,493	2,265,372	(35,286)	21,384,579
Intangibles, purchased capacity	1,671,321	121,059	-	1,792,380
Intangibles, software	232,883	9,793	(97,953)	144,723
Telemetry system	198,004	28,357	-	226,361
Equipment and tools	1,999,012	193,920	(537,202)	1,655,730
Total accumulated depreciation/amortization	25,165,221	2,800,254	(975,722)	26,989,753
Total capital assets being depreciated/amortized, net	124,604,461	(2,598,994)	(75,427)	121,930,040
Capital assets, net	\$ 126,728,850	(2,365,702)	(546,411)	123,816,737

Depreciation/amortization expense charged to wastewater systems for 2013 and 2012 was \$24,437 and \$24,436, respectively. Depreciation/amortization expense charged to other operations for 2013 and 2012 was \$2,668,485 and \$2,775,818, respectively.

(5) Risk Management

The District is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The District assumes liability for any deductibles and claims in excess of coverage limitations.

(6) Major Customers

Water sales revenue to three ethanol plants was \$2,475,278 and \$2,430,250 for the years ended December 31, 2013 and 2012, respectively. This represents 19% and 20% of total operating revenue for each year, respectively. The balance due from these customers and included in accounts receivable-trade was \$215,789 and \$192,832 at December 31, 2013 and 2012, respectively.

(7) Changes in Long Term Liabilities

A summary of changes in long-term liabilities for the years ended December 31, 2013 and 2012 is as follows:

Obligation	Year ended December 31, 2013				
	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
USDA Rural Development:					
Water revenue notes	\$ 45,497,467	-	(37,395)	45,460,072	803,388
Wastewater revenue notes	251,778	-	(3,040)	248,738	3,100
Water revenue bonds, series 2006	78,822,960	-	(1,363,599)	77,459,361	1,440,000
Assured Guaranty Corporation	2,519,867	-	-	2,519,867	-
Rural Community 2000 loan	20,000	-	-	20,000	20,000
Project anticipation notes	1,468,168	-	(25,000)	1,443,168	-
Asset purchase agreement	76,426	-	(76,426)	-	-
Net OPEB liability	12,000	-	-	12,000	-
Total	\$ 128,668,666	-	(1,505,460)	127,163,206	2,266,488

Obligation	Year ended December 31, 2012				
	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
USDA Rural Development:					
Water revenue notes	\$ 45,377,746	350,235	(230,514)	45,497,467	-
Wastewater revenue notes	254,700	-	(2,922)	251,778	2,981
Water revenue bonds, series 2006	80,136,560	-	(1,313,600)	78,822,960	1,385,000
Assured Guaranty Corporation	2,440,580	79,287	-	2,519,867	-
Rural Community 2000 loan	20,000	-	-	20,000	20,000
Project anticipation notes	1,468,168	-	-	1,468,168	-
Asset purchase agreement	76,426	-	-	76,426	76,426
Net OPEB liability	8,000	4,000	-	12,000	-
Total	\$ 129,782,180	433,522	(1,547,036)	128,668,666	1,484,407

Forbearance Agreement and Debt Restructuring – On March 28, 2013, the District completed a forbearance agreement with Assured Guaranty Corporation, the reinsurance company. The forbearance agreement is intended to provide structure to the District's repayment schedule for outstanding debt obligations and replenishment of the reserve requirements for the water revenue bonds, series 2006 and the USDA rural development water revenue notes. The District has also agreed to future water rate increases necessary to meet debt service coverage requirements. The conditions of the forbearance agreement are included below.

USDA Rural Development Water Revenue Notes – The District has issued water revenue notes totaling \$47,281,900 at December 31, 2012. The original water revenue notes, with various issue dates and interest rates ranging from 4.125% to 5.625% per annum, require monthly payments of \$196,946. The District has pledged future water customer receipts, net of specified operating disbursements, to repay the water revenue notes. The original notes were payable solely from water customer net receipts and were payable through 2049.

On March 29, 2013, the District issued water revenue refunding capital loan notes, taxable series 2013 to refund all outstanding USDA Rural Development water revenue notes retroactively to January 1, 2013. The agreement combined the outstanding principal at December 31, 2012 of \$45,147,223 and \$350,235 of accrued interest for a total of \$45,497,467. The notes have a stated interest rate of 1.875% per annum and require an interest only payment on January 1, 2014 of \$853,077. The interest payment was made on December 10, 2013, so \$37,395 was applied to the outstanding principal balance. Interest and principal payments of \$137,407 are due each month beginning on February 1, 2014, with a final maturity date of January 1, 2053.

At December 31, 2013 and 2012, the debt service coverage ratios of the revenues to debt service were 130% and 51%, respectively. At December 31, 2013 and 2012, the note balances totaled \$45,460,072 and \$45,497,467, respectively.

The resolution providing for the issuance of the water revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a water revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) A water reserve account shall be established. There shall annually be deposited to the water reserve account an amount equal to 10% of the water reserve account requirement. This account is restricted for the purpose of paying principal and interest when funds in the sinking account are inadequate.
- (d) An improvement account shall be established for the purpose of paying principal and interest when there is insufficient money in the sinking and reserve accounts and extraordinary maintenance and repair, as needed.
- (e) User rates or charges to consumers shall be sufficient in each year for the payment of the proper and reasonable expenses of operation and maintenance of the system, for the payment of principal and interest on the notes and for the establishment of adequate reserves.

- (f) At all times, persons handling money will be bonded for the faithful performance of their duties. The amount will not be less than the maximum amount of principal and interest coming due in any fiscal year on all obligations of the District.

The District has not maintained the required balance in the water reserve account, has not deposited required amounts to the improvement account and the amount of surety bond insurance does not meet the minimum requirements of the note resolution.

USDA Rural Development Wastewater Revenue Note – On January 8, 2010, the District issued a \$260,000 wastewater revenue note, series 2010 for the purpose of paying the construction costs of a community-wide sanitary sewer collection and treatment system to serve the residents of Bouton. The note proceeds paid the outstanding principal of the \$260,000 project anticipation note from F & M Bank. The note bears interest at 4.00% per annum with monthly principal and interest payments of \$1,088. The note matures on January 8, 2050. At December 31, 2013 and 2012, the note balance totaled \$248,738 and \$251,778, respectively.

The District has pledged future wastewater customer receipts, net of specified operating disbursements, to repay the wastewater revenue note. The note is payable solely from wastewater customer net receipts and is payable through 2050. At December 31, 2013 and 2012, the debt service coverage ratios of net receipts to debt service were 199% and 192%, respectively.

The resolution providing for the issuance of the wastewater revenue note includes the following provisions:

- (a) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a wastewater revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) A wastewater reserve account shall be established. Monthly payments of \$109 shall be deposited to the wastewater reserve account. This account is restricted for the purpose of paying principal and interest when funds in the sinking account are inadequate.
- (d) An improvement account shall be established for the purpose of paying principal and interest when there is insufficient money in the sinking and reserve accounts and extraordinary maintenance and repair, as needed.
- (e) User rates or charges to consumers shall be sufficient in each year for the payment of the proper and reasonable expenses of operation and maintenance of the system, for the payment of principal and interest on the note and for the establishment of adequate reserves.
- (f) At all times, persons handling money will be bonded for the faithful performance of their duties. The amount will not be less than the maximum amount of principal and interest coming due in any fiscal year on all obligations of the District.

The amount of surety bond insurance does not meet the minimum requirements of the note resolution.

Water Revenue Bonds – The District has pledged future water customer receipts, net of specified operating disbursements, to repay \$83,865,000 of water revenue bonds issued in November 2006. Proceeds from the bonds provided financing to refund certain outstanding USDA Rural Development water revenue notes, lease purchase obligation agreements and water revenue capital loan notes and for the costs of improvements and extensions to the District's water system. The bonds are payable solely from water customer net receipts and are payable through 2041. The total principal remaining to be paid on the bonds is \$78,055,000. At December 31, 2013 and 2012, the debt service coverage ratios of the net receipts (excluding connection fees) to debt service were 130% and 51%, respectively.

The resolution providing for the issuance of the water revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a water revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) A water reserve account shall be established. This account is restricted for the purpose of paying principal and interest when funds in the sinking account are inadequate.
- (d) An improvement account shall be established for the purpose of paying principal and interest when there is insufficient money in the sinking and reserve accounts and extraordinary maintenance and repair, as needed.
- (e) User rates or charges to consumers shall be sufficient in each year for the payment of the proper and reasonable expenses of operation and maintenance of the system, for the payment of principal and interest on the bonds and for the establishment of adequate reserves.
- (f) At all times, persons handling money will be bonded for the faithful performance of their duties. The amount will not be less than the maximum amount of principal and interest coming due in any fiscal year on all obligations of the District.

The amount of surety bond insurance does not meet the minimum requirements of the bond resolution, the District has not maintained the required balance in the water reserve account and the District has not deposited required amounts to the improvement account.

Assured Guaranty Corporation – In July 2011, CIFG Assurance North America, Inc. (CIFG NA), the bond insurer, and Assured Guaranty Corporation, the reinsurance company, reached a settlement where the water revenue bonds, series 2006 guarantee, including principal and interest payments of \$1,329,936 made by CIFG NA in 2010, has been assumed by Assured Guaranty Corporation under the Quota Share Reinsurance Agreement dated January 21, 2009. During 2011, Assured Guaranty Corporation paid the District's deficiency of \$1,110,644 of principal payments on the water revenue bonds, series 2006. Total principal and interest of \$2,440,580 paid by the reinsurance company continue to accrue interest, which totaled \$79,287, for a total outstanding balance of \$2,519,867 at December 31, 2013 and 2012.

The District entered in a forbearance agreement which, among other things, addressed the repayment of the outstanding balance owed to Assured Guaranty Corporation. The deficiency payments will be paid semi-annually ending on December 1, 2029. The first nine years require interest only payments. The outstanding balances at December 31, 2013 and 2012 were \$2,519,867 and \$2,519,867, respectively.

Rural Community 2000 Loan – The District obtained a \$200,000 loan in 1993 from the Iowa Department of Economic Development (now the Iowa Economic Development Authority) under the Rural Community 2000 program. The loan is interest free and required annual principal payments of \$20,000 through 2009. The District was in default for non-payment of the outstanding loan balance at December 31, 2013 and 2012. The outstanding balance at both December 31, 2013 and 2012 was \$20,000.

Project Anticipation Notes – In 2006, the District entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. (Trustee for the issuance of planning and design loans.) The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the costs of planning, designing and constructing improvements and extensions to the water system. The funds were drawn by the District from the Trustee upon request to reimburse the District for costs as they were incurred. The District has drawn \$1,468,168. The District decided not to move forward with the projects and received approval from the Iowa Finance Authority to extend the maturity date from October 16, 2009 to October 16, 2010 and then to October 16, 2011.

As a condition of the forbearance agreement, the District refinanced the project anticipation notes due to the Iowa Finance Authority. The refinanced loan is interest free and is due in full on January 1, 2032. The District made a principal payment of \$25,000 during the year ended December 31, 2013, reducing the outstanding principal balance to \$1,443,168 at December 31, 2013.

Asset Purchase Agreement – The District entered into an asset purchase agreement with Coats Utilities Company on November 5, 2007. As part of the agreement, the District assumed Capmark Loans #01-03244-01 and #01-03244-03 from Coats Utilities Company for the assets collateralizing the loans. Capmark Loan #01-03244-01 bears interest at 5.00% per annum and requires monthly principal and interest payments of \$470, with a maturity date of May 6, 2017. Capmark Loan #01-03244-03 bears interest at 5.00% per annum and requires monthly principal and interest payments of \$377, with a maturity date of May 11, 2022.

As a condition of the forbearance agreement, during the year ended December 31, 2013, the District paid the accrued interest and principal and retired both loans.

A summary of the annual principal and interest payments to maturity is as follows:

Year Ending December 31,	USDA Rural Development								
	Water Revenue Refunding Capital Loan Notes			Wastewater Revenue Notes			Water Revenue Bonds, Series 2006		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 803,388	845,496	1,648,884	3,100	9,956	13,056	1,440,000	3,554,088	4,994,088
2015	818,582	830,302	1,648,884	3,224	9,832	13,056	1,500,000	3,496,487	4,996,487
2016	834,063	814,821	1,648,884	3,353	9,703	13,056	1,560,000	3,436,487	4,996,487
2017	849,837	799,047	1,648,884	3,487	9,569	13,056	1,620,000	3,374,087	4,994,087
2018	865,909	782,975	1,648,884	3,626	9,430	13,056	1,700,000	3,293,088	4,993,088
2019-2023	4,581,468	3,662,952	8,244,420	20,426	44,854	65,280	9,700,000	15,278,769	24,978,769
2024-2028	5,031,390	3,213,030	8,244,420	24,853	40,427	65,280	12,040,000	12,934,425	24,974,425
2029-2033	5,525,497	2,718,923	8,244,420	30,238	35,042	65,280	14,995,000	9,976,225	24,971,225
2034-2038	6,068,127	2,176,293	8,244,420	36,788	28,492	65,280	19,325,000	6,148,962	25,473,962
2039-2043	6,664,046	1,580,374	8,244,420	44,759	20,518	65,277	14,175,000	1,342,350	15,517,350
2044-2048	7,318,487	925,933	8,244,420	54,455	10,825	65,280	-	-	-
2049-2053	6,099,278	226,774	6,326,052	20,429	1,158	21,587	-	-	-
Total	\$ 45,460,072	18,576,920	64,036,992	248,738	229,806	478,544 *	78,055,000	62,834,968	140,889,968

Year Ending December 31,	Rural Community 2000 Loan			Project Anticipation Notes			Assured Guaranty Corporation		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 20,000	-	20,000	-	-	-	-	47,248	47,248
2015	-	-	-	-	-	-	-	47,248	47,248
2016	-	-	-	-	-	-	-	47,248	47,248
2017	-	-	-	-	-	-	-	47,248	47,248
2018	-	-	-	-	-	-	-	47,248	47,248
2019-2023	-	-	-	-	-	-	595,056	228,164	823,220
2024-2028	-	-	-	-	-	-	1,588,817	114,877	1,703,694
2029-2033	-	-	-	1,443,168	-	1,443,168	335,994	4,744	340,738
2034-2038	-	-	-	-	-	-	-	-	-
2039-2043	-	-	-	-	-	-	-	-	-
2044-2048	-	-	-	-	-	-	-	-	-
2049-2053	-	-	-	-	-	-	-	-	-
Total	\$ 20,000	-	20,000	1,443,168	-	1,443,168	2,519,867	584,025	3,103,892

Year Ending December 31,	Total		
	Principal	Interest	Total
2013	\$ 2,266,488	4,456,788	6,723,276
2014	2,321,806	4,383,869	6,705,675
2015	2,397,416	4,308,259	6,705,675
2016	2,473,324	4,229,951	6,703,275
2017	2,569,535	4,132,741	6,702,276
2018-2022	14,896,950	19,214,739	34,111,689
2023-2027	18,685,060	16,302,759	34,987,819
2028-2032	22,329,897	12,734,934	35,064,831
2033-2037	25,429,915	8,353,747	33,783,662
2038-2042	20,883,805	2,943,242	23,827,047
2043-2047	7,372,942	936,758	8,309,700
2048-2053	6,119,707	227,932	6,347,639
Total	\$ 127,746,845	82,225,719	209,972,564

* - The unamortized discount on the water revenue bonds, series 2006 at December 31, 2013 and 2012 totaled \$595,639 and \$617,040, respectively.

(8) Leases

The District leased land to two farm tenants during 2012 with rent payments totaling \$9,870. Both leases automatically terminated in November 2012. During 2013, the District sold both parcels of land.

The District leases land to a farm tenant. The lease terms are April 2012 and through September 2019. This land is enrolled in the U.S. Department of Agriculture Farm Service Agency Conservation Reserve Program (CRP). The District has an agreement in place with the farm tenant to receive 50% of the tenant's CRP payment, which amounts to \$6,654 annually. The District's investment in property subject to the operating lease was \$575,265 at December 31, 2013 and 2012.

The following is a schedule by year of minimum future rentals on non-cancelable operating leases as of December 31, 2013:

Year Ending December 31,	Total Estimated Rental Receipts
2014	\$ 6,654
2015	6,654
2016	6,654
2017	6,654
2018	6,654
2019	6,654
Total	<u>\$ 39,924</u>

(9) Compensated Absences

District employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as expenses by the District until used or paid. The District's liability for earned vacation payable to employees at December 30, 2013 and 2012 was \$50,248 and \$49,941, respectively. This liability has been computed based on rates of pay in effect at December 31, 2013 and December 31, 2012, respectively.

(10) Other Postemployment Benefits (OPEB)

Plan Description – The District operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 29 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug and dental benefits are provided through a medical and dental plan administered by Wellmark and Principal Financial Group, respectively. Retirees under age 65 would pay the same premium for the medical/prescription drug and dental benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by the District. The District currently finances the benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount

determined using the alternate measurement method permitted by GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended December 31, 2013, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ -
Interest on net OPEB obligation	-
Contribution made	-
Increase in net OPEB obligation	-
Net OPEB obligation beginning of year	12,000
Net OPEB obligation end of year	<u>\$ 12,000</u>

For the year ended December 31, 2013, the District made no contributions to the plan and there were no contributions from plan members eligible for benefits.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year Ended December 31,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 4,000	0%	\$ 8,000
2012	4,000	0	12,000
2013	0	0	12,000

Funded Status and Funding Progress – As of December 31, 2013, the actuarial accrued liability was \$14,884, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$14,884. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,247,000 and the ratio of the UAAL to covered payroll was 1.20%. As of December 31, 2013, there were no trust fund assets.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the January 1, 2013 valuation date, a simplified version of the unit credit actuarial cost method was used. The assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 1% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the 2004 United States Live Tables. Annual retirement and termination probabilities were developed from the assumption active plan members were assumed to retire at age 62, or the first subsequent year in which the member would qualify for normal benefits under IPERS.

Projected claim costs of the medical plan range from \$185 to \$1,432 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

As a result of the Affordable Care Act, effective January 1, 2014, the District's rates/premiums will no longer result in an implicit rate subsidy or OPEB liability because the District will now have rates that vary by age and a retiree will pay the resulting premium based on their attained age.

(11) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities was implemented for the year ended December 31, 2013. The statement recognizes certain items previously reported as an asset as an expense.

Beginning net position has been restated to recognize bond issuance costs and organizational costs from a prior period as an expense.

The effects of the accounting change are summarized as follows:

	Amount
Net position December 31, 2011	\$ 3,001,576
GASB 65 adjustments:	
Bond issuance costs expensed	(602,417)
Organizational costs expensed	(55,749)
Net position January 1, 2012, as restated	<u>\$ 2,343,410</u>

(12) Assured Guaranty Corporation – Contingent Liability

The District's financial statements for the years ended December 31, 2013 and December 31, 2012, include a liability payable to Assured Guaranty Corporation, the reinsurance company, of \$1,675,483. This liability consists of unpaid legal fees and expenses incurred by Assured Guaranty Corporation. As part of the forbearance agreement, Assured Guaranty Corporation has agreed to waive, but not forgo, the reimbursement of these expenses by the District. If no termination events occur prior to December 1, 2019 and each December 1 thereafter for 10 years, Assured Guaranty Corporation will permanently forgo 1/10th of the amount due each year.

Required Supplementary Information

Xenia Rural Water District

Schedule of Funding Progress for the
Retiree Health Plan
(In Thousands)

Required Supplementary Information

Year Ended December 31,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	January 1, 2010	-	\$ 15	15	0.00%	\$ 1,428	1.05%
2011	January 1, 2010	-	15	15	0.00	1,494	1.00
2012	January 1, 2010	-	15	15	0.00	1,341	1.12
2013	January 1, 2013	-	15	15	0.00	1,247	1.20

See Note 10 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.



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STATE OF IOWA

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Members of the
Xenia Rural Water District:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Xenia Rural Water District as of and for the years ended December 31, 2013 and 2012, and the related Notes to Financial Statements, and have issued our report thereon dated April 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Xenia Rural Water District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Xenia Rural Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Xenia Rural Water District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Xenia Rural Water District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (C) through (E) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Xenia Rural Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance required to be reported under Government Auditing Standards, which are described in item (F) in the accompanying Schedule of Findings. We also noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended December 31, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Xenia Rural Water District's Responses to the Findings


The Xenia Rural Water District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Xenia Rural Water District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Xenia Rural Water District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 10, 2014

Xenia Rural Water District
Schedule of Findings
Year ended December 31, 2013

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Financial Reporting – During the audit, we identified material amounts of prepaid expenses, advances from others and capital asset adjustments not recorded in the District's financial statements. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation – The District should implement procedures to ensure all prepaid expenses, advances from others and capital asset adjustments are identified and included in the District's financial statements.

Response – The District will continue to improve efforts to ensure all prepaid expenses, advances from others and capital asset adjustments are reported in the proper year.

Conclusion – Response accepted.

- (B) Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The initial receipt collection is done by an employee who has the ability to post collections and make adjustments to customer accounts.

Additionally, the employee responsible for reconciling is able to post adjustments to the customer accounts receivable ledger and has access to original customer checks electronically deposited to the bank.

Recommendation – The District should review its operating procedures to obtain the maximum internal control possible under the circumstances, including utilizing members of the Board of Directors.

Response – The District has a limited staff available for billing, collections and accounting responsibilities which limits the District's ability to implement ideal control measures. The District will continue to review and monitor its internal control policies in an effort to maximize internal control effectiveness.

Conclusion – Response acknowledged. To strengthen controls, the District should utilize members of the Board of Directors to obtain the maximum internal control possible.

- (C) Payroll and Tax Reports – The District did not file the Iowa payroll withholding and the Iowa sales tax reports in a timely manner.

Recommendation – The District should ensure required reports are filed timely.

Response – The procedures for approving and paying payroll withholding and sales tax have been reviewed by management and members of the District's Board. Going forward, all payroll withholding and sales tax payments will be handled by the accounting department. With these new procedures in place, the entire process will fall within the accounting department. Payments will be made by staff directly reporting to the controller, giving the controller authority over making sure payments are made in a timely manner.

Conclusion – Response accepted.

Xenia Rural Water District

Schedule of Findings

Year ended December 31, 2013

- (D) Capital Assets – The District’s capital asset policy does not adequately address procedures to add assets to the capital asset record. Several assets had inadequate descriptions to identify the specific asset and certain assets consisted of several items with different descriptions and useful lives.

Recommendation – The District should revise the written capital asset policy to include procedures for recording assets in the capital asset record, assigning descriptions, useful lives and appropriate depreciation methods.

Response – The District’s Board will revise the current capital asset policy. The District’s management will make efforts to avoid recording multiple items as one item and provide identifiable descriptions for assets in the capital asset record.

Conclusion – Response accepted.

- (E) Inventory – The District maintains an inventory of parts for the assembly and repair of new and existing water systems. The inventory is easily accessible to all employees and the inventory duties are not properly segregated. The individuals who are responsible for the District’s inventory also perform the annual inventory counts. Inventory tracking sheets are to be completed daily but are not always accurate and there is no evidence of review documented on these sheets by those responsible for the inventory.

Recommendation – The District should develop procedures to ensure the inventory is properly safeguarded and accurately tracked. The review of the daily tracking sheets should be documented by those responsible for the inventory. Also, a person who does not have responsibility for inventory should perform the inventory counts.

Response – The District’s management is currently reviewing the shortcomings of internal controls for inventory and how to better safeguard inventoriable assets and assure inventoriable assets are properly accounted for and allocated once placed in service.

Conclusion – Response accepted.

Xenia Rural Water District

Schedule of Findings

Year ended December 31, 2013

INSTANCES OF NON-COMPLIANCE:

- (F) Long Term Notes, Bonds and Loans – Instances of non-compliance with the water and the wastewater revenue notes and the water revenue bond resolutions were noted, as follows:

The District did not meet the minimum balance requirements or make adequate transfers to the water and wastewater reserve and improvement accounts according to the water and wastewater revenue notes and the water revenue bond resolutions.

While the District maintains surety bond coverage for employee theft, the amount of coverage does not meet the note and bond resolution requirements.

Also, the District is in default on an outstanding loan held by the Iowa Economic Development Authority.

Recommendation – The District should review the note and bond provisions and comply with the requirements. Also, the District should consult legal counsel to resolve these matters.

Response – The District signed a forbearance agreement with Assured Guaranty Corporation on March 28, 2013 and refinanced all water services notes held by USDA on March 29, 2013. Under both of these contracts, the District has been allowed a grace period for replenishing the reserve funds for both the series 2006 bonds and the USDA water revenue notes. The Improvement Fund has not been funded due to balance available in the Revolving Fund, which is available exclusively for water service capital expenditures. Each year, the District has approached the market in an effort to maintain the surety bond coverage requirements, but such coverage has proven unobtainable. The District will make an effort to renegotiate the repayment schedule of the \$20,000 outstanding loan held by the Iowa Economic Development Authority.

Conclusion – Response acknowledged.

Xenia Rural Water District

Schedule of Findings

Year ended December 31, 2013

Other Findings Related to Required Statutory Reporting:

- (1) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

Paid to	Purpose	
Iowa Department of Revenue	Penalty and interest	\$ 3,437
Wellmark	Late fees	136
Various employees	Staff food/refreshments and flu shots	50
Various vendors	Late fees and interest charges	71

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The District should ensure all disbursements are paid timely and all reports are filed timely to avoid late charges, penalties and interest. The District should also determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the Board should establish written policies and procedures, including requirements for proper documentation.

Response – The procedures for approving and paying payroll withholding and sales tax have been reviewed by management and members of the District's Board. Going forward, all payroll withholding and sales tax payments will be handled by the accounting department. With these new procedures in place, the entire process will fall within the accounting department. Payments will be made by staff directly reporting to the controller, giving the controller authority over making sure payments are made in a timely manner. Insurance payments to Wellmark are now scheduled as direct withdrawal which should avoid penalties going forward. Refreshments were provided to attendees of the District's rate increase public discussion and flu shots are reimbursed to the District's staff with the intent of reducing paid sick time used by staff. The District will make efforts to remit payments to vendors in a timely manner.

Conclusion – Response accepted.

- (2) Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted.
- (3) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not. Certain minutes of the meetings of the Board of Directors were not signed.

Recommendation - The District should ensure minutes are properly signed.

Response – Going forward, efforts will be made to ensure the approved Board meeting minutes are signed.

Conclusion – Response accepted.

- (4) Deposits and Investments – Deposits and investments were in compliance with Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

Xenia Rural Water District

Schedule of Findings

Year ended December 31, 2013

- (5) Water and Wastewater Revenue Notes and Water Revenue Bonds – Instances of non-compliance with the water and wastewater revenue note and the water revenue bond resolutions are detailed in item (F).

- (6) Other Information Required by the Bond Resolution

Insurance – The following insurance policies were in force at December 31, 2013:

Insurer	Description	Amount	Expiration Date
EMC Insurance Companies	Property:		
	Blanket: Buildings and personal property	\$ 31,614,409	5/1/14
	Extra expense	75,000	5/1/14
	Contractors equipment	540,236	5/1/14
	Leased contractors equipment	300,000	5/1/14
	Miscellaneous property - radios	26,400	5/1/14
	Data processing - equipment and software	132,500	5/1/14
	Off-site tools and equipment:		
	Per installation site	50,000	5/1/14
	Property temporarily off premises	20,000	5/1/14
	Property in transit	40,000	5/1/14
EMC Insurance Companies	General liability coverage:		
	General aggregate	2,000,000	5/1/14
	Products general liability	2,000,000	5/1/14
	Personal and/or advertising	1,000,000	5/1/14
	Each occurrence	1,000,000	5/1/14
	Fire damage	100,000	5/1/14
EMC Insurance Companies	Medical expense	5,000	5/1/14
	Automobile coverage:		
	Liability	1,000,000	5/1/14
	Medical payments	1,000	5/1/14
	Uninsured motorists	100,000	5/1/14
Liberty Mutual Workers Comp Group	Underinsured motorists	100,000	5/1/14
	Workers' compensation:		
	Employee liability limit	1,000,000	5/1/14
	Commercial umbrella:		
EMC Insurance Companies	Policy aggregate	5,000,000	5/1/14
	Public officials errors and omissions:		
EMC Insurance Companies	Liability aggregate limit	5,000,000	5/1/14
	Additional Side A limit	1,000,000	5/1/14
	EPL aggregate limit	1,000,000	5/1/14
	Maximum aggregate	6,000,000	5/1/14
EMC Insurance Companies	Fidelity coverage:		
	Per loss - Employee dishonesty	1,000,000	5/1/14
	Per loss deductible	10,000	5/1/14
EMC Insurance Companies	Employee benefit liability:		
	Each loss from administrative errors	1,000,000	5/1/14
	Aggregate	2,000,000	5/1/14

Xenia Rural Water District

Schedule of Findings

Year ended December 31, 2013

Water Rates – The following water rates were in effect at December 31, 2013:

<u>RESIDENTIAL/COMMERCIAL</u>	<u>Gallons</u>	<u>Rate</u>
Rural 5/8" meter (non-franchise users):		
Minimum	0-1,000	\$56.36
Steps	per 1,000 after minimum	\$11.18 to \$4.68
Franchise 5/8" meter:		
Minimum	0-1,000	\$34.00 to \$46.84
Steps	per 1,000 after minimum	\$10.20 to \$6.10
City of Boone contracted rate:		
Minimum	0-1,000	\$8.50
Steps	per 1,000 after minimum	\$4.46 to \$7.25
3/4" meter:		
Minimum	0-1,000	\$112.71
Steps	per 1,000 after minimum	\$11.18 to \$4.68
1" meter:		
Minimum	0-1,000	\$107.00 to \$169.06
Steps	per 1,000 after minimum	\$11.18 to \$4.68
1 1/2" meter:		
Minimum	0-1,000	\$204.50 to \$281.77
Steps	per 1,000 after minimum	\$7.20
2" meter:		
Minimum	0-1,000	\$272.00 to \$450.83
Steps	per 1,000 after minimum	\$10.20
6" meter:		
Minimum	0-16,000	\$450.83
Steps	per 1,000 after minimum	\$4.68
<u>INDUSTRIAL</u>	fixed cost	\$14,631.00 to \$67,228.00
	per 1,000 after minimum	\$2.86 to \$1.77
<u>WHOLESALE</u>	no minimum/per 1,000 charge	\$7.00 to \$1.80

Statistical Information

Water Customers served at December 31, 2013:

<u>Description</u>	<u>Number</u>
Residential	9,227
Commercial	332
Industrial	4
Wholesale	8
Total	<u>9,571</u>

Xenia Rural Water District

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Tammy A. Hollingsworth, Senior Auditor II
Brandon J. Vogel, Senior Auditor
Stephen J. Hoffman, Staff Auditor
Jesse J. Probasco, Staff Auditor
Melissa E. Janssen, Assistant Auditor

A handwritten signature in black ink, reading "Andrew E. Nielsen". The signature is fluid and cursive, with the first name "Andrew" and last name "Nielsen" clearly legible.

Andrew E. Nielsen, CPA
Deputy Auditor of State